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Committee on Commerce, Science, & Transportation

Joint Statement of the
Independent Telephone & Telecommunications Alliance
National Rural Telecom Association
National Telecommunications Cooperative Association
Organization for the Promotion and Advancement of Small Telecommunications Companies
Western Alliance

In the Matter of
The Future of Universal Service

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Executive Summary

An unending string of Federal Communications Commission (FCC) regulations and court decisions may be putting our national universal service system at great risk.

First, the FCC is proposing to relieve long distance carriers of the duty the Telecommunications Act of 1996 gave them to support federal universal service programs by shifting an unfair support burden onto carriers that connect end user customers to the public switched voice telephone network. It is undisputed that the FCC needs to ensure that universal service funding is sufficient and sustainable. While there is still controversy about how to improve the current system, it is clear that the FCC needs to follow the law and ensure that interstate long distance carriers continue to provide their share of support, as is mandated by statute. It is also clear that the FCC has to make all service providers that offer competing services and functions contribute to universal service funding to avoid both marketplace distortions and saddling some customers with too much of the cost of national policy.

Second, the FCC has to make sure that support for new carriers is not excessive, carries real responsibilities, and provides real customer benefits. Even though Congress specifically expanded and spelled out the nation's long-standing commitment to universal service in the 1996 Act, the FCC's notion of "competitive neutrality" has led it to squander support collected from the nation's consumers and businesses by guaranteeing windfall payments to "competitors." The FCC has put enormous pressure on the size of the federal support program for high cost rural areas by providing "support" without regard to a competing carrier's costs and trying to prevent states from adopting requirements to ensure that carriers provide "value" in return for the support they receive.

It is time for Congress to remind the FCC that the purpose of federal support in high cost areas is neither simply to double or triple the cost of nationwide universal service to provide new carriers with premium profits nor to provide customers with subsidized choices.

The 1996 Act recognized the delicate balance that would have to take place for its two-fold objective of universal service and competition/deregulation to coexist. Yet the regulators and the courts have routinely assigned a higher value to what one Commissioner has called "creating competition," to the distinct disadvantage of both the rural markets and consumers it is designed to help and the users of the network that pay the tab.

Today multiple carriers may receive universal service support based upon the incumbents' costs, rather than their own. In addition, competitors are receiving such support without "capturing" any customer lines or serving any new lines. In other words, far more support is flowing through the universal service system than necessary. Such needless support adds to the pressure from the costs of the newer programs developed under the 1996 Act's provisions for schools, libraries and health care discounts. Mounting pressures on fund size also come at a time when the fund is growing because of decisions that substitute universal service support for access charge cost recovery in furtherance of controversial court rulings about what constitutes

"implicit support" that should be made "explicit."

The states generally have only exacerbated the situation, with many failing to place a high premium on the public interest when evaluating eligible telecommunications carrier (ETC) requests or determining whether to develop state universal service plans. States need to provide a fair share of state support for added carriers they designate. They also need to use their oversight duties to ensure that non-cost based support paid to competing carriers is used solely for valid universal service purposes.

Considering the world we live in today, we believe there can be no denying the critical role universal service plays in ensuring the future of our nationwide integrated network - a network that has been proven again and again to be so critical to our national and economic security. Thus, we call on the Congress today to work with us to stem the stream of regulatory and legal decisions that are unraveling the universal service program, and to once again sustain the nation's commitment to this important national policy.

Introduction

Mr. Chairman, members of the committee, my name is Don Bond, and I am the third-generation president of Public Service Telephone Company in Reynolds, Georgia. My grandparents Hiram Columbus Bond and Bessie Marie Bond were the first generation of our family to enter the telephone business. Among his many efforts to help our company grow, my father H. C. Bond, Jr. worked to acquire Rural Utilities Service (formerly Rural Electrification Administration) financing to upgrade equipment and further extend service into rural areas. Today Public Service Telephone Company serves 1,050 square miles of territory between Macon and Columbus, Georgia.

The dream of my grandparents and parents to provide affordable voice grade service to residents and businesses in rural Georgia has been advanced as my family's company has grown to provide a variety of services through Public Service Communications. Through its subsidiaries, Public Service Communications provides wireline and wireless telephone service, Internet access, cable television, and long-distance services in Georgia and Alabama. Like the majority of rural telephone companies all across the nation, my company was formed to bring quality communications service to a rural market that was overlooked by the nation's largest carriers. Because we are a community based telecommunications provider, we have a special interest in fulfilling the varied communications needs of our community.

The challenges facing Public Service Telephone Company are representative of those facing rural incumbent local exchange carriers (ILECs) in markets throughout the nation. And for the most part, the hundreds of other rural ILECs throughout the nation are offering a similar array of communications services to their markets. That is why today I am also appearing specifically on behalf of those hundreds of other ILECs that are represented by the Independent Telephone and Telecommunications Alliance, the National Rural Telecom Association, the National Telecommunications Cooperative Association, the Organization for the Promotion and Advancement of Small Telecommunications Companies, and the Western Alliance

which is a partnership of the Western Rural Telephone Association and the Rocky Mountain Telecommunications Association.

I also bring to the table my experience as a director of the National Exchange Carriers Association (NECA) of which I am currently the board chairman, although I am not speaking on behalf of NECA today. NECA and its subsidiaries play an important role in administering the federal universal service and access charge programs that are so important to ensuring that telephone service remains available and affordable in all parts of the country.

The Essence Of Our Concern

Universal service is the cornerstone of our nation's telecommunications policy. It is a social compact embracing (1) the ideal that all Americans, both urban and rural, are entitled to quality telecommunications services at affordable rates and (2) the economic fact that the value of a network to every customer is enhanced by ensuring that the greatest possible number of customers are connected to the network. So important is this national policy that its historic high-cost and low-income mission, begun under the mandate of the 1934 Communications Act, was specifically enshrined in clear, concise terms in the 1996 Act. At that time, Congress also expanded the policy, adding the new objective ensuring that schools, libraries, and rural health care facilities may fully access the advanced telecommunications features that are available via our nationwide, integrated network.

Yet we continue to have ample reason for concern with the future of our nation's universal service program. Generally, these concerns date to the development of the rural and universal service provisions of the 1996 Act. While we are grateful that Congress worked such strong provisions into that statute, we are, as we were then, nevertheless wary of several elements of the provisions -- particularly, those that allow additional carriers to receive universal service support in a given market without adding any value for the support they receive.

Ensuring The Stability And Sufficiency of Universal Service

The Committee has asked for testimony on the FCC's open proceeding considering a proposal to relieve the long distance carriers from almost all of their current statutory duty to contribute to federal programs that support universal service. The plan would assess contributions based on the number and capacity of "connections" provided to the public switched network. This is a highly controversial proposal, and, to be honest, the associations I represent have taken different positions on how to solve the current universal service dilemma. One view is that the FCC should continue to assess interstate revenues to fund support programs. The other is that the FCC should only move forward on a flat-rate, non-revenue based contribution assessment method if it makes significant changes in the proposal.

The interesting thing is that these seemingly opposite recommendations are really the only differences between what the associations have said about the "end-user connection" scheme. Let me tell you about the points we all agree about. First, we all oppose the plan as proposed because the statute expressly says that all carriers that provide interstate telecommunications services have to contribute on an equitable and nondiscriminatory basis. While end users connect with local exchange carriers for exchange access - origination and termination of calls within the local area - actual interstate service requires the customer to use an interstate long distance carrier's state-to-state service. Whether the FCC fixes the end user connections plan or stays with interstate revenues, the associations all agree that the interstate carriers have to be the principal contributors.

Second, we all agree that universal service support needs to be sufficient and sustainable and should be fair to all providers and users of all kinds of networks. We are all aware of growth in the fund and concerns about shifts in what carriers are providing interstate services. These developments have created a serious issue about how to prevent erosion and evasion of support mechanisms. Thus, we all agree that the FCC needs to assess the broadest possible list of contributors to keep each carrier's contribution and the amount it needs to recover from its customers as small as possible. The law allows the FCC to assess all providers of "telecommunications" if the public interest requires, even if they are not common carriers. We all agree that all providers that compete with each other and provide the same functions should have the same contribution responsibilities. This means that cable modem providers and information service providers that provide their own transmission should contribute, just as ILECs presently contribute for their transmission role in providing Internet access. This also means that wireless carriers need to be assessed on a fairer basis than the current "safe harbor" adopted as a temporary measure before the dawn of the new wireless era of nationwide toll and local calling plans.

Therefore, we all oppose the plan that is the subject of this panel and want everyone in the same shoes to contribute on the same basis. The only difference is in whether we have urged the FCC to continue the present method with a broader contribution base or suggested ways to make a flat-rate monthly assessment method work.

Universal service programs have successfully connected rural American households and businesses, schools and libraries, low-income families, and others to the public switched network. In addition to connecting people to the network, a strong universal service policy provides other economic and social benefits. For example, rural Americans in particular see opportunities for their communities to thrive and prosper through rural economic development fostered by modern telecommunications. Indeed, few would argue that the nation has already achieved many benefits from pursuing universal service as a national public policy goal.

With this in mind, it is critically important that Congress continue to ensure a sustainable funding mechanism that provides stable and sufficient universal service funds. This is necessary because the sufficiency and the sustainability of the fund will be even more seriously challenged in the days ahead for two reasons: (1) an

increasing demand for universal service funds; (2) a convergence of technology and growth in the Internet.

Our concern is that the size of the universal service fund may become so large that the current funding mechanism can no longer provide sufficient support dollars. For example, in the year 2000 approximately \$4.5 billion in universal service funds were needed to support all existing programs.

However, given recent FCC decisions regarding access and universal service issues in the CALLS and MAG access orders, it is currently estimated that for the year 2003, universal service fund requirements will exceed \$6 billion.

Moreover, the number of competing carriers seeking designation as eligible to receive universal service support is growing at an ever-increasing pace. And the resultant effect on the universal service program is predictably significant. In the first quarter of 2001, competing carriers were receiving their redundant universal service support at an annualized rate totaling nearly \$4.7 million. Just a little more than a year later, in the third quarter of 2002, such carriers are receiving duplicative support at an annualized rate totaling nearly \$76.4 million. Truly, the growing size of the fund is taxing the ability of current contribution methods to generate sufficient funds.

Moving to the second point, converging communications technologies and the rapid growth of the Internet pose long-term challenges to the "sufficiency" and sustainability of funding for Universal Service. Evolving technologies are causing the revenues of traditional telecommunications providers that contribute to the fund to dwindle as they are replaced by a new cadre of players. In addition, new technologies are creating new ways to deliver telecommunications and information services that, so far, enable the users and providers to avoid universal service contribution responsibilities.

For example, the gradual but ever-growing use of broadband platforms and Internet Protocol (IP) networks plays a significant role in the present instability of the contribution base. Consumers use IP networks in a variety of ways (e.g. access to the World Wide Web, e-mail, instant messaging, Internet telephony) and via various platforms (e.g. cable, wireless, satellite) to substitute for interstate calls on the public switched network. As "Internet substitution" grows, traditional interstate revenues providing the funding base for universal service will diminish. And there will be little offsetting gain, since presently only wireline telecommunications carriers are required to contribute on the basis of revenues earned from Internet access service while all other Internet access providers utilizing other platforms remain exempt from the obligation.

Given these threats to the fund, it is time to reassess the overall fund composition, as well as the services and service providers that should be contributing to universal service. Fundamentally, all facilities-based providers of telecommunications, regardless of technology platform, should contribute to the universal service fund. Contributions should be based upon interstate telecommunications activities, and not be tied to a narrow definition of "interstate telecommunications services."

Essentially, what this means is that the contribution base should be broadened for all purposes funded by

the universal service mechanism. Broadband service providers, whether considered information service providers or telecommunications service providers, should be included as supporters of universal service. And all broadband service providers should be assessed in a similar manner. In short, there should be parity in the contribution methodology applied to all telecommunications providers.

It is important that the funding mechanism operate in a competitively neutral fashion. Customers of both information and telecommunications services should not be driven to one provider over another based on differences in responsibility for contributing to universal service. And for the benefit of consumers and providers alike, an administratively simple and flexible method for assessing and collecting funds from interstate service providers should be implemented to ensure a sustainable fund.

In reassessing the makeup of contributors to the fund, Congress should insist that interexchange carriers, Internet access providers, wireless carriers, bundled service providers, payphone providers, dial-around services, and IP telephony providers, as well as local exchange carriers all contribute to the universal service fund. Contribution obligations imposed on a particular telecommunications industry segment or consumer group, e.g., multi-line business, should be equitable, competitively and technologically neutral, and not so large that they drive users off the public network. For example, centrex customers have already faced an access charge hike to \$9.20, and cannot weather steep new contributions pass-throughs.

In sum, for the reasons outlined above that threaten the existence of the current universal service fund, it is important that Congress reaffirm its commitment to a sustainable universal service fund. Congress should direct the FCC to identify a better funding mechanism in accordance with the statute that will provide a reliable and sufficient source of funds. The funding mechanism chosen should be applied to all facilities-based interstate telecommunications or information service providers that provide an interstate telecommunications component as part of their end user services.

Finally, the responsibility to ensure that schools, libraries and rural health care providers have access to telecommunications, Internet access, and internal connections is a national responsibility and should not solely be the responsibility of the telecommunications industry. For one thing, the schools and libraries and rural health care programs should be collected and administered as a separate fund.

States Must Take ETC Responsibilities More Seriously

Finding a better way of assessing contributions to universal service support on carriers is only one problem the FCC needs to resolve to make universal service support funding sustainable. Another key issue is how additional carriers qualify for universal service support and the basis on which they are supported once they qualify.

We argued for tighter language at the time of the 1996 Act's implementation, but the emphasis on moving

to a so-called competitive deregulated environment was such that a more restrictive universal service section was ultimately precluded. Owing to misguided interpretations and implementation of the 1996 Act, today we are at the point where pressures on the program have grown to the degree that we are now very concerned about its long-term viability.

Although we have never agreed with the concept of allowing multiple carriers in a market served by a rural telephone company to receive universal service support, we had hoped that the safeguards in the law would prevent the duplicative support provisions from doing unintended harm. In fact, we have always noted that the great majority of rural markets that are served by our members are not and may never be in a position to sustain more than one carrier. Artificial competition -- that is competition that is based upon a business plan relying on duplicative universal service support -- is not market driven competition at all and should be discouraged, not encouraged. Technically, the statute contemplates multiple carrier support in non-rural telephone company areas and even requires it in the large urban-centered markets. In our view, however, the provision allowing an existing support recipient to voluntarily relinquish its ETC designation when a new recipient qualified indicates that the congressional intent behind the provision was that new entrants into a market would be making a genuine, carrier of last resort-like, commitment to the market in order to receive universal service support.

The legislative history leading to the creation of the section of the statute that provides the states with the responsibility of making ETC determinations shows that the Congress believed state authorities would be in a better position to make ETC determinations than the FCC. State policymakers, after all, would have the best information with regard to the needs of their respective rural markets and would have a vested interest in ensuring such markets were efficiently and well served. Unfortunately, to a large extent state policymakers have simply followed the direction and directives of the FCC, without a great deal of thought being given to their individual, unique circumstances.

The FCC first tried to prevent states from adopting any additional requirements for carriers seeking to qualify for support. The 5th Circuit decided that the law did not permit this prohibition. The FCC has, since then, issued an unnecessary declaratory ruling threatening to preempt state requirements the FCC perceives as obstacles to the publicly-supported "competition" it wants to foster.

Spurred by the FCC, multiple state authorities have moved aggressively forward to establish interconnection and universal service environments that heartily embrace competition and deregulation, but hardly take notice of their statutory universal service responsibilities. The practice of making support available in the name of stimulating competition has led to the granting of ETC status to new market entrants without regard to the impact on efficiency, the cost or who would pay.

In case after case state authorities have granted ETC status to competitive carriers based on extremely loose public interest tests. In fact, for the most part "competitive neutrality" is often judged to be equivalent to artificially inducing competition and even such synthetic competition has been assumed to be in the public interest. Such theory has no place in the regulatory arena as it applies to rural markets. In the case of the rural markets served by my company and those of my rural company colleagues, the entire communities are

typically already receiving high quality, affordable communications services and the existing provider is doing all it can to provide advanced capabilities.

As noted, section 214(e)(2) of the Communications Act of 1934, as amended, requires state commissions to designate additional ETCs in areas served by non-rural ILECs. However, Congress had reservations as to whether the introduction of subsidized competition into the areas served by rural telephone companies would immediately or in all cases be beneficial to the provision of universal service. These concerns led Congress to require a public interest determination prior to the designation of additional ETCs in rural company service areas. It follows, then, that the introduction of competition in a rural service area cannot be considered, itself, a demonstration of serving the public interest. That is exactly the question Congress required the states to determine as a prerequisite for designating an additional ETC in a rural telephone company's study area.

We call upon Congress to work with us to strengthen the federal statute in a way that makes it clear that ETC designations are to be taken seriously and that the responsibilities associated with receipt of this designation must be of a carrier of last resort level of commitment that are demanded of incumbent carriers. Providing universal service support to a carrier that is unwilling to provide service within the evolving definition is wasteful and serves no one well. The fact of the matter is that we incumbents have always provided real value to our customers and to the nationwide end-user contributors in return for our ETC designations, and we would not have it any other way. Nevertheless, Congress should no longer sit still and watch others take advantage of this critical program.

Providing Support For Multiple Carriers At The Incumbent Carrier's Cost

But as I alluded in my opening, the states are not the only ones running up the costs for the universal service program without increasing the benefits. The FCC is also responsible. One of the most controversial and costly FCC actions "implementing" Congress's universal service requirements is its revision of the pro-consumer policy into a consumer-funded windfall for competing carriers in rural areas. This unjustified consumer burden came about because the FCC uses the incumbent local telephone company's actual costs for providing a line to its customers to calculate the universal service support for competing carriers.

The FCC originally said that it would use its proxy model, based on an imaginary state-of-the-art lowest-cost network for rural carriers' support. However, its Rural Task Force, made up of representatives of consumers and all sorts of carriers, determined that the proxy model simply would not work for the extremely varied rural telephone companies and the differing conditions in their service areas. And we agree. Nevertheless, the FCC still wants to force rural companies into its misshapen proxy mold. Fortunately, for now it is still using actual costs, which accurately measure the need for support for incumbents under the current formulas.

Fixated on the principle of "competitive neutrality" it had added to the list of principles Congress adopted, the FCC decided to make support "portable." By this, the FCC meant that universal service support for high cost, rural, and insular areas would be shifted to a competitive ETC that "wins" or "captures" a customer from an ILEC. It later spoke of support for "new" customers, too. The idea is that the new eligible carrier would receive the same level of universal service support for a customer no longer served by the incumbent as the ILEC would have been eligible to receive for serving that customer.¹

The FCC's rationale was that "paying the support to a competitive eligible telecommunications carrier that wins the customer or adds a new subscriber would aid the entry of competition in rural study areas."² The FCC simply brushed aside the statutory language, ignoring that section '254's requirements for "sufficient," "predictable" and, above all, "specific" support are totally at odds with basing support on another carrier's cost-specific support.

The FCC has never even required new eligible carriers to show which lines they have "captured" or which lines are "new." Instead, it developed rules that now provide support for whatever lines the new designated carrier serves when it is designated, including lines that it has been providing for years without the need for any support from the nation's consumers. Moreover, basing support on the incumbent's actual costs means that the competing carrier's subsidy per line has no link whatever to its own costs or rates. Thus, the support is not "specific" and is almost certain to be more than "sufficient," since unlike ILECs, competitors can choose where to serve and where to seek support.

As a result, wireless carriers get support based on the high costs of providing a copper or fiber line to a remote ranch in Montana. However, the economics of how wireless carriers incur costs are entirely different, and they do not need to install lines to the customer's premises. They also get support based on the greater costs per line for necessarily small switches provided by small incumbent carriers in areas with few subscribers, regardless of the size, location, or efficiency of their switches or the scope of their service areas. The mismatch between support and costs has become even greater now that the FCC has adopted Interstate Common Line Support (ICLS) to replace cost recovery that ILECs used to get via their access charges to long distance carriers. However, while the incumbents lowered their access charges to qualify for support, the competing subsidized carriers claim that they must get the additional support per line without changing their rates or services at all.

The claim that support is necessary to bring competitors into rural areas is not supported by the facts. What has generally been the case, for example, is that the additional support is claimed by a rural cellular

¹ *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charge*, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, Fourth Order on Reconsideration in CC Docket No. 96-45, Report and Order in CC Docket Nos. 96-45, 96-262, 94-1, 91-213, 95-72, 13 FCC Rcd 5318, 5364-5365, para. 79 (1997) (4th Order on Reconsideration), citing *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8932-34, 8944-46 (1997) (Order).

² Order, 12 FCC Rcd 8944, para. 311.

carrier that is already serving the area where it draws support. Under current FCC policies, it immediately obtains support at nationwide consumers' expense for the lines it is already providing to paying customers. The lure of support for nothing is quickly inducing wireless carriers to cash in on the consumer-financed bonanza.

Incumbent local phone companies serve as the so-called carrier of last resort in their service areas. This means that they must provide service in response to any reasonable demand, including, for example, when competitors cease to provide service, and cannot discontinue service without regulatory permission. These obligations are key safeguards against any community or consumer losing the ability to connect into the public switched network at just and reasonable rates.

In contrast, the wireless carriers that are beginning to line up for the right to draw support are also the strongest opponents of any requirements that competing subsidized carriers provide proven value to consumers in return for the support they receive. These carriers claim that section '332(c) of the Act, which exempts them from state rate and entry regulation, also bars any state from requiring them to meet rate level requirements to justify their subsidies under universal service support programs. They expect the general public to cover some of their costs of providing service under the national policy of providing universal service in high-cost markets. But they refuse to recognize the difference between state regulation -- setting rates or placing obstacles that prevent them from providing competing service at all -- and requiring them to provide value to the nation's ratepayers to justify the support they receive. These carriers even complain that it is against government policy to ask competing carriers to calculate their costs of service to qualify for support from nationwide users of the network. It is as if applicants for hurricane disaster assistance took the position that they could not be asked to demonstrate that they had been affected by hurricane damage because financial information and information about the condition of their property is private.

Under section 253 of the Act, carriers are free to enter and provide competing service in markets throughout the nation without regulatory obstacles. However, it is not forbidden "regulation" to ask that they justify the need for and use of the support they draw from the network under the consumer-centered purposes for which universal service support has been established. Nor should the section 332 prohibition on requiring wireless carriers to provide equal access so that their customers can select among competing long distance providers mean that they are shielded from meeting that universal service requirement if they voluntarily seek high cost subsidies. It is absurd to equate regulatory requirements that apply as a condition for providing service as a carrier with conditions that attach only to carriers that choose of their own volition to seek support under programs designed to spread the cost of nationwide service at affordable rates throughout the nation.

Indeed, section 254(e) of the Act requires that carriers that obtain federal universal service support use it only for the legitimate universal service purposes for which it is intended. Since the support for incumbents is based almost entirely on their own past actual investment and expense payments, it is clear that the support has been used for purposes covered by the cost-based support formulas. The use to which

competitors will put support based on the incumbents' actual spending record, cannot be discerned from the formulas or records. Their unsupported self-certification that they use the support for appropriate purposes is suspect, at best, when they need not capture customers, add new customers, change their rates, increase their investments, improve their services or make any other legitimate use of the windfall payments they receive. Congress owes it to the nation's telecommunications customers that fund the federal universal service programs (a) to base each ETC's support payments on its own cost of providing service and (b) to verify that non-cost-based payments are actually put to use for the statutory purposes.

Finally, the argument of wireless carriers that the definition of universal service must not be upgraded unless they can meet the new standard is a perversion of the pro-consumer foundation on which the national universal service policy rests. While competitive local exchange carriers (CLECs) have tried to provide broadband in their markets, wireless carriers that are entering markets on the basis of what universal service subsidy is available put their own interests ahead of the consumers Congress sought to benefit. To make the level of support available to particular carriers a test for whether and when consumers should be able to count on the evolving definition of universal service the law requires is an affront to the statutory principles of reasonably comparable urban and rural rates and services, including advanced telecommunications and information services and to the 'section 706 objective of universally available access to broadband services. Although it is too early to change the definition at this point in the development of the broadband marketplace, who can qualify for support will never be a reasonable standard for evolving the supported universal services within the definition.

Universal Service Is Good Public Policy For America

I noted earlier that today, the high-cost component of the universal service program handles approximately \$3 billion in annual carrier-to-carrier support transactions, which represents about half the amount that is channeled through the overall fund each year. The high-cost component is a "safety-net" of sorts for rural markets and their subscribers, but it is also a tool to ensure that all Americans enjoy the benefits and security of a nationwide integrated network. Congress and successive administrations have wisely recognized the value of this component of the program and now, above all else, need to take steps to ensure its ongoing ability to function according to statutory intent.

The high-cost element of the fund is used to build telecommunications "platform" infrastructure. Without a telecommunications platform, our schools and libraries, rural health care, and lifeline and link-up programs, and millions of rural Americans, have nothing. Modern telecommunications infrastructure in rural America enables diversity of education, and health and other social services comparable to those in urban areas.

Our nation's first priority for rural areas should be to provide a stable environment for continued telecommunications investment. Technologies and businesses, even the likes of MCI, come and go. But one of the most important ways rural Americans have benefited from universal service is that it has sustained a telecommunications commitment to rural communities for decades. "Rural telephone companies," as defined in the 1996 Act, have become an integral part of rural communities throughout

America and have remained economically viable in these high-cost areas due, in large part, to strong universal service policy.

In recent years, rural areas have become increasingly dependent on universal service funds. FCC decisions to resolve interstate access pricing have consistently shifted ILEC revenue requirement and the matching cost recovery to the high cost component of universal service. Many small and rural ILECs today rely on interstate access and universal service dollars for 45-to-70 percent of their revenue base.

The 1996 Act promoted both competition and universal service for the telecommunications industry. However, those who focus solely on competition for the industry believe that communications should ultimately be viewed as a commodity. That certainly makes discussions about the benefits of competition more applicable to communications. But that is not reality for rural America, let alone what Congress had in mind when formulating the public policy goal of universal service.

The commodity concept is too limiting when discussing the role of communications, especially in rural America. Certainly the first objective of universal service is getting people connected to the network. But there is a much broader social context and objective for rural America that is tied to universal service. How far Congress and regulators are willing, or are permitted, to go to move away from "commodity" thinking and discuss social outcomes has a lot to do with maximizing the benefits to be derived from our nation's universal service policy.

Commodity and competition simply mean delivering a quality widget at the lowest price possible. There is no consideration given to other synergies and tangential outcomes that can have a positive impact on rural communities - their economies and quality of life. Rural telephone companies have demonstrated their commitment to their communities by bringing and improving service in areas the largest companies were not interested in serving. Their record speaks for itself. So, demonstrably, rural communications is much more than a commodity. It is both a utility and an engine for economic development. It is a tool for local business leaders, local telephone company management, and local government officials to use in growing their communities, to use in improving the local economy and quality of life.

Rural telephone companies are working hard to support rural America and promote rural economic development. The public policy provisions that will be applicable to small and rural carriers must give them assurance that they will have a reasonable opportunity to recover their infrastructure investments, which will support future broadband services.

In sum, a strong universal service policy is still needed today to ensure a stable environment that encourages continued telecommunications investment in rural America. Incumbent rural telephone companies have met the challenge of deploying telecommunications infrastructure in high-cost rural areas. With a strong universal service policy, they can continue to help rural communities and rural Americans realize diversity of education, improved health and other social services, and economic development through modern telecommunications.